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UNCLAS SECTION 01 OF 02 MUSCAT 000385

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DEPT FOR NEA/ARPI, EB/TRA/AN (LJONES), EB/CBA (BBEHRENS)
PASS TO USDOT/OST (SHATLEY)

E.O. 12958: N/A

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SUBJECT: TWO AIRLINES BETTER THAN ONE?

REF: 05 MUSCAT 1436

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SUMMARY

1. (SBU) Profitable Oman Air plans to expand its medium and long-haul fleet with Boeing aircraft in a bid to compete directly with Gulf Air, as the latter relocates part of its operations from Abu Dhabi to Muscat's Seeb International Airport. End Summary.

PROFIT FIRST

2. (SBU) On March 6, Oman Air Planning Director Edward Grauvogl shared with Econoff the carrier's expansion plans in the context of Oman's dual carrier landscape, where the government holds a 50% share in long-haul carrier Gulf Air and 33% share in regional carrier Oman Air. Grauvogl noted that the situation was unique for a country of this size, but that the government functions as a silent partner in Oman Air, allowing it to operate on a commercial basis. As a result, Oman Air is able to turn a profit based on its service to India, Salalah (in southern Oman), Kuwait, Cairo, and Beirut, and also is able to drop unprofitable routes, such as those to Dar es Salaam and Zanzibar, over the objections of certain government officials.

EXPANSION IN THE CARDS

3. (SBU) Grauvogl speculated that Oman Air would grow its regional routes by adding one B737-800 or -900 series aircraft per year over the next five years. He predicted that Oman Air would also roll its 2 leased B737-700 aircraft into B737-800 aircraft upon renewal to keep the fleet's age young. Grauvogl further confirmed press reports that Oman Air is contemplating new long-haul service to London Heathrow, Frankfurt, Paris, Milan, Zurich, Bangkok and Kuala Lumpur with the acquisition of three B767 aircraft (with the option to roll them over to B787 aircraft upon availability).

LAST ONE STANDING

4. (SBU) These plans would place Oman Air in direct competition with Gulf Air as the latter relocates part of its operations to Muscat's Seeb International Airport (reftel). For this reason, Grauvogl noted that Oman Air's CEO recently floated the airline's vision during a press conference to gauge reaction. Public response so far has been muted, though in a March 7 meeting with Econoff, Abdul Rahim bin Salem Ali al-Harmi, Transport Ministry Director General of Civil Aviation, welcomed Oman Air's expansion plans, noting that more service for Muscat would benefit tourism.

5. (SBU) Grauvogl predicted that it would be tough for both airlines to compete in the market over the long run, noting that Oman Air and Gulf Air had previously talked about a merger. While Oman Air may be open to selling its air operations, so long as it retained its profitable ground handling and catering services, Grauvogl noted that Oman's Transport Ministry has not supported such a buyout.

COMMENT

6. (SBU) With the Gulf skies becoming more congested with upstart new airlines, a shakeout looks likely. Despite its Project Falcon turnaround program, Gulf Air will be forced to compete, with aging aircraft and an untested two-hub

strategy, against stronger carriers such as Emirates, Qatar Airways, and Etihad Airways. Of the two remaining Gulf Air partners, Oman appears to be better placed than Bahrain should the carrier fail, as Oman Air would be in a position to add the legacy carrier's desirable routes should its expansion plans move forward. Oman's Transport Ministry appears keen to keep Oman Air separate for just this reason. For now, however, the Omani government is publicly standing firm behind Gulf Air.

BALTIMORE